

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
June 19, 2013

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, June 19, 2013, at 8:35 a.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 8:50 a.m. Upon a call of the roll, the following answered:

| | | |
|-----------|-------------------------|------------------------------------|
| ATTENDED: | Alan Granite, President | Michael White, Trustee |
| | Jim Strey, Trustee | Chris Black, City Finance Director |

ABSENT: Tracy Renfro, Secretary

| | | |
|--------|--|-----------------------------------|
| STAFF: | Ted Dutkiewicz | |
| | Linda Wlaznik, Pension Investment Accountant | Judi Yehling, Recording Secretary |
| | Carrie Eklund, Central Services Manager | |

| | | |
|---------|--|---------------------------------------|
| GUESTS: | Attorney Carolyn Clifford, Ottosen Britz | Mike Piotrowski, Marquette Associates |
| | C. Jefferson Hagood, VP, Montag & Caldwell | |

PUBLIC COMMENT -- None

I. MINUTES

- The May 15th minutes were presented. Jim Strey made a motion to approve the minutes and Chris Black seconded the motion. A roll call vote was taken:

| | | |
|----------------|--------------|---------------|
| Ayes: | Alan Granite | Michael White |
| | Jim Strey | Chris Black |
| Nays: | None | |
| Absent: | Tracy Renfro | |

II. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Mike Adamany is retiring effective June 18, 2013, having served 28 years and 8 months. He is entitled to a monthly pension of \$5,280.10/month or an annual pension of \$63,361.21. Jim Strey made a motion, seconded by Chris Black, to approve the application for pension. A roll call vote was taken:

| | | |
|----------------|--------------|---------------|
| Ayes: | Alan Granite | Michael White |
| | Jim Strey | Chris Black |
| Nays: | None | |
| Absent: | Tracy Renfro | |

- Ernest Evans is retired effective June 7, 2013, having served 20 years and 3 months. He is entitled to a monthly pension of \$3,356.43/month or an annual pension of \$40,277.17. Alan Granite made a motion, seconded by Jim Strey, to approve the application for pension. A roll call vote was taken:

| | | |
|--------------|--------------|---------------|
| Ayes: | Alan Granite | Michael White |
| | Jim Strey | Chris Black |
| Nays: | None | |

Absent: Tracy Renfro

- Frank Schmerse passed away on June 4, 2013, and his pension will terminate. Jim Strey made a motion, seconded by Chris Black, to approve termination of the pension. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None

Absent: Tracy Renfro

- Marilyn Schmerse, surviving spouse of Frank Schmerse, is eligible to receive a dependent's pension... Alan Granite made a motion, seconded by Chris Black, to approve the survivor's pension. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None

Absent: Tracy Renfro

- Albert Hittner passed away on June 7, 2013, and his pension will terminate. Jim Strey made a motion, seconded by Chris Black, to approve termination of the pension. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None

Absent: Tracy Renfro

III. DISBURSEMENTS

- Alan Granite made a motion to approve the June payroll of \$1,222,365.97. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None

Absent: Tracy Renfro

- Invoices totaling \$36,608.46 were presented as shown in the attached warrant packet. Question was asked about the \$300.00 charge for the Coalition for Qualified Plan Status. It was explained that every five years the Fund has to undergo recertification to confirm compliance with IRS regulations and this is the charge for this.

Jim Strey made a motion to approve the invoices as presented in the warrant packet. Alan Granite seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None
Absent: Tracy Renfro

IV. CASH & INVESTMENTS

- Jefferson Hagood presented Montag & Caldwell's Investment Performance Review:
 - In September 2010 they bought back their firm and are 100% employee-owned with 47 employees including 20 investment personnel. They have \$14.1 billion under management and since 2002 there have been no changes in people or process.
 - They focus on high-quality large cap growth companies who are selling at a discount and with a strong earnings profile. They buy stock in companies that are growing their earnings faster than the average company, but what really differentiates them from other funds is that they are not willing to pay any price for that growth. This allows them to do well in markets where growth is doing well but also in difficult market environments.
 - They have a concentrated portfolio with about 30-40 names. They are a "bottom up" company and look a bit different than the benchmark.
 - Page 5 shows the current portfolio as of May 31, 2013, listing the stocks held in alphabetical order. Hagood commented that the last 13 years have been very difficult for large cap growth market. The last column of the chart shows earnings for the individuals companies and they are looking for earnings of at least 10%/year but they cap the earnings at 20%. Hagood cited Apple as an example. They first purchased it in 2006 and sold it this year, as they don't want more than a 5% position in any one company. He thinks their earnings this year will be flat to down this year with lots of competition and their margins are decelerating. Their holding is at zero now versus the benchmark at 4-7%.
 - Page 6 compares the PVT (Present Value Total) for the S&P to that of Montag & Caldwell which shows that the difference is as wide as it has ever been. From a valuation perspective "this is as good as it gets and earnings this year have been very hard to come by," Hagood said. He believes, however, that Montag & Caldwell with holdings in the consumer staples and health sectors has good expectations with good earnings growth. They have a portfolio trading at a significant discount to the valuation of the market and should have earnings growth at three times that of the market this year according to Hagood.
 - Page 7 shows the sector weights. When asked about recent position changes, Hagood indicated that they had not held any stocks in the financial sector before but do have three now.
 - Looking at the charts gives an indication of the unusual market environment we're in. It is not fundamentals driving the market but quantitative earnings. We have experienced very moderate growth and the Fed is continuing to prop the market up. Hagood thinks the market will continue to prop it up and continue to grow but (he) wouldn't be surprised at a 10% correction in the market. He also thinks that earnings growth will continue to come down.
 - Page 14 shows the investment results of the fund: as of the end of March the fund was up 11% vs. 9.5% for the Russell 1000 and as of yesterday it was up 15.8% vs. the benchmark at 15.2% with a market value of \$8.327 million as of June. Hagood thinks the portfolio is positioned okay for a market downdraft based on valuations.
 - Hagood left at 9:30 a.m.
- Mike Piotrowski presented Marquette Associates' Pension Fund Report for May 31, 2013:
 - It has been an "interesting" month for investment according to Mike Piotrowski.

- The Feds talk of tapering its QE program contributed to bond market volatility. This has been the worst month for bonds since 2004 with spiking bond yields and the consequent drop in bond prices. This means a negative return in the bond markets with very little income to offset the price of volatility. This is the real risk in the portfolio with 45% in bonds.
- Mike Piotrowski feels there is still room to grow in the equity market but we'll probably see more volatility. Stocks continue to do well with the S&P up 16% YTD. The Fund is up over 2% for the month of May but pretty flat for the month of June so far.
- Non-U.S. equities overall were a drag on the portfolio but valuations in the international market are extremely attractive. Europe is still in recession and emerging markets are down 3.3% but still like the prospects of it going forward.
- The broad/aggregate market was down 1.8% for the month and 1% YTD. The market is reacting to the Fed actions and if they taper it will probably sell off but he doesn't believe the tapering will be immediately. U.S. equities look favorable and real estate continues to look good with 6-8% return.
- Looking at page 7, the portfolio is overweight to U.S. equity but should be good until the end of the year when (we) can rebalance. The Fund is well diversified.
- The Fund did well for the month – up 3.9% and up 7.2% YTD. Overall, Mike Piotrowski said, he is happy with the positioning of the Fund but the volatility has definitely picked up.
- Pages 9 shows the performance of the individual managers:
 - Montag has held up well and Fiduciary is in line with the benchmark, and Marquette likes their prospects for the future.
 - Both Manning and DFA have done well versus their benchmarks.
 - PIMCO is positive YTD but had a disappointing May.
 - Principal is providing a good yield.
 - Hillswick did a little worse than Segall-Bryant because of longer duration.
- The concern since 2008 is the bond market when there is so much liquidity. The bond “bubble” is large and yields are so low and Michael White commented that the market says “Bernanke has a tiger by the tail.” But if stocks are down, real estate leases still are the same. Mike Piotrowski thinks the market will react favorably today but regardless, bonds are high risk.
- Mike Piotrowski thanked the Board for retaining Marquette as its financial advisor and said that Police had also retained them.
- There were no cash needs for the month as the real estate and property taxes came in.
- Ted Dutkiewicz passed out the report on the status of the Fund as of May 31, 2013:
 - The report showed total current market value of the Fund was \$145.73 million, up 4.344% year to date. The equity fund is up 22.199%, and fixed income is down 17.424% at 35.660% of the total Fund.
 - Total annual return is at 17.94%; equity annual return is 51.44%, a fixed income annual return of -26.02%, and a total income return of 5.98%.
- Records of purchases and sales were distributed.

Michael White made a motion, seconded by Jim Strey, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Michael White
Jim Strey Chris Black

Nays: None
Absent: Tracy Renfro

V. OLD BUSINESS

- Attorney Clifford indicated that she has received the affidavits for all three individuals on disability pension: John Albaugh, Marc Gasparini and Larry Peterson.
- Ted Dutkiewicz indicated that he had received some numbers back from the actuary, Tim Sharpe. Chris Black said that if they go by the same assumptions, the contribution will go up 9.7%. Ted Dutkiewicz had asked Sharpe to calculate what consequence adopting the more current (2000) mortality table and what effect there would be using entry age normal versus PUC and 90% and 100%.

Chris Black said it looked like the change in the mortality table combined with PUC had a larger impact on the contribution than changing from PUC to entry age normal and changing the mortality table, and he wants to “tie down” these effects more before going to the aldermen with any changes. We need to be able to explain why the change in the mortality table does or doesn’t change the contribution.

- Ted Dutkiewicz has a copy of the DOI audit report and has already replied and received an extension. There were just a “few minor fixes or questions to be answered” that had to be made:
 - Clarification on the bank mutual fund
 - Underfunding requirements
 - Payroll calculations
 - “Tweak” to Investment Policy, which Ted Dutkiewicz will draft
 - Membership files – list of missing info
 - Refund dates need to be put in the minutes; and
 - Schedule P -- there is a report they use for formatting issues which Linda Wlaznik is fixing.

Linda Wlaznik is working on doing the necessary “fixes” and the calculations and it should be done by the next meeting. Attorney Clifford said she could provide a “boiler plate” for the fixes so it can be finalized and a letter for the President’s signature would be ready for the next meeting.

- The Annual Report is close to being done and will be filed by the June 30th date. The Board can sign off on it at the next meeting.

VI. NEW BUSINESS

- Per Attorney Clifford the Board is required to review the closed session minutes every six months but this was tabled this month until a list of closed session meetings is available.
- Linda Wlaznik indicated that the affidavits were sent out with a deadline of August 31st to turn them in.
- Linda Wlaznik is working on making some small modifications to the policies and forms so that was tabled until the July meeting when the changes can be integrated officially.
- Ted Dutkiewicz discussed the renewal of the Putnam annuity contracts. Once Elden Raasch reached 90, the death benefit automatically becomes an annuity which means a loss of the \$1.2 million death benefit. He had drafted a letter to find out what can be done to extend the contract. The options are to request a lump sum payment now of \$53,000 or allow a 10-year certain annuity

beginning May 2014 with monthly payments totaling \$60,000 over 10 years. Options were discussed and decision was tabled until next month to see if the lump sum payment can be gotten for the full amount.

Ted Dutkiewicz went over the history of the original Putnam contract which was obtained in 1993 when only 10% of the funds were allowed to be in equity and in an insurance product and they invested \$8 million. Police had a similar plan but not through an annuity and both have grown over the years but we have taken a lot of money out of it and gotten the initial \$8 million back a long time ago. The annuity contract itself is only worth \$200,000 but it has a unique death benefit of \$1.3 million on each of the original trustees.

- Discussion was held concerning changing the day of the Board meetings to the third Thursday of each month in the afternoon. It was decided to move the meeting for July from the 17th to Thursday, July 18th at 3:00 p.m.
- **CLOSED MEETING** – None required.
- Alan Granite had flyers for training: the IPPFA Midwest Training Conference in Lake Geneva, October 1-4 and one in Bloomington. Fire District conference starts tomorrow where Attorney Clifford is making a presentation and she may be able to give a “legislative update.”

VII. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 10:25 a.m.

Next regular meeting is July 18, 2013, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary

8/15/13
Date

Prepared by:



Judith Yehling, Recording Secretary

8-15-13
Date

Approved by the Board of Trustees at its July 18, 2013, meeting